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FROM: NIO/Economics		
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The Director of Central Intelligence

Washington, D.C. 20505

NIC #05011-84  
30 August 1984

National Intelligence Council

MEMORANDUM FOR: Director of Central Intelligence  
Deputy Director of Central Intelligence

FROM: Maurice C. Ernst  
National Intelligence Officer for Economics

SUBJECT: US Import Dependence and National Security

REFERENCE: Your Memo dtd 26 July 1984, Subject: Industrial  
Mobilization Capability

1. You have expressed on several occasions your concern about the impact on our national security of an increasing dependence on imports, especially of high technology industrial products. I have tried to become informed on what is known and not known about this issue so that we could better focus our efforts. I have concentrated on the impact of import dependence on US weapons production, especially in wartime, rather than on our ability to control the transfer of technology to other countries.

2. At this point, not many firm conclusions can be drawn about this issue. There are basically four questions:

- (1) Is import dependence a problem in weapons production under current or plausible peacetime conditions? -- The answer is almost certainly no.
- (2) Is it likely to be a problem under plausible wartime conditions? -- The answer is probably no, except perhaps some very narrowly defined and specialized products.
- (3) Is it likely to become a wartime problem, if recent trends in the industries continue? -- The answer is, probably in some industries, but there has been too little work done to give any definitive answers.

SECRET

- (4) Is it, or is it likely to become, a constraint on US military R&D, that is, on our ability to produce state-of-the art military equipment? -- We have no evidence that this is the case now and do not know whether it may become a problem.

There are several reasons why we cannot answer these questions adequately. All of them reflect a fundamental flaw in the way the US Government is organized to address wartime mobilization issues.

- o DoD does not collect much data on the use of imports by military contractors, subcontractors, and their suppliers.
- o Work on economic mobilization in the US Government is unfocused, duplicative, and disorganized.
- o Until this work becomes better organized, CIA work on foreign industrial capabilities will be less useful than it should be.

3. Although the US collects relatively detailed data on imports, there is virtually no information on which imports are used for military purposes. Data collected by DoD cover only direct contractors. There is very little direct military procurement from overseas, and the contractors do not indicate, and sometimes their own accounts do not show, the source (whether domestic or foreign) of their own purchases. Estimates of current, projected, or hypothetical direct and indirect import requirements for defense are based on coefficients, derived from input/output tables which were constructed in peacetime for relatively broad industrial categories. They may give reasonable ballpark results for basic inputs, such as strategic minerals, but are wholly inadequate as a basis for determining whether or not a problem exists for specialized manufactures and equipment.

4. The US Government does a substantial amount of work on a variety of aspects of wartime mobilization and import requirements.

- o Periodic analysis of requirements for strategic minerals is mandated by Congress. It is centered in FEMA, but also involves most other departments and agencies, notably DoD, Commerce, CEA, and OMB.
- o DoD studies the ability of US industry to meet peacetime and potential wartime requirements for weapons, military manpower, etc. Different parts of DoD work on the issue from different perspectives, including Defense Research and Engineering, Systems Analysis, and Policy. Estimates of industrial requirements are becoming more detailed and sophisticated, but do not provide much

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information on imports. Occasional special studies provide specific insights on potential mobilization problems, but these are sporadic and limited.

- o The Department of Commerce has a program under Lionel Olmer to assess the capabilities of 40 critical industries to meet military requirements. Apart from a special machine tool study, the program is just getting under way. The unit responsible for it has three analysts, and their ability to task the experts in Commerce, FEMA, and DoD, and to collect new information from the private sector, is uncertain. Moreover, I understand that DoD and FEMA are studying some of the same industries separately.

5. These efforts not only are inadequate, but also are poorly coordinated with each other. There is no lead agency with the capability and the clout to put these bits and pieces together. In principle, FEMA should play that role, but it appears to lack the authority, credibility, and capability to do the job. For example, the lead role in the current strategic stockpile study was taken from FEMA by the NSC and OMB, but neither are staffed to do the job properly and on a continuing basis. Although useful work is being done on specific military requirements, on the state of and trends in key industries and the role of imports therein, and on what kinds of war the US should be prepared to fight, no one is putting all this together and I know of no plans to do so.

6. Commerce's study of the machine tool industry, in response to that industry's claim for import protection on national security grounds (Section 232 of the Trade Expansion Act of 1962), is an example of how inadequate data and organization can hinder the analysis of what may be a very serious problem.

- o Commerce produced what appears to be a competent study of the characteristics and trends of the US machine tool industry, and the growing import dependence of several segments of that industry. In order to determine whether these trends constituted a national security problem, Commerce asked FEMA last year for estimates of the demand for machine tools under conditions of a major war. FEMA obtained a three-year war scenario from DoD, and calculated the demand for machine tools using the Wharton/DRI input/output table and its own estimates of productive capacity. The analysis showed that productive capacity for machine tools would be seriously inadequate to accommodate the increased demand. Commerce then drafted recommendations to give limited protection to the industry based on these findings.

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- o The analysis, however, was severely criticized by the NSC, OMB, and CEA not only because they disliked the conclusions, but also because of some of the assumptions FEMA had made. The analysis was then rerun, using the war scenario and methodology employed in the current stockpile study to estimate machine tool demand. I understand that this analysis showed that there would be no problem.
- o Although the matter is complex and a lot of heat is being generated over discussions of fine points in methodology, the explanation of the difference seems to be basically very simple--military expenditures projected in the new study are about one-half of what they were in the other one. There are other differences, but I do not believe them to be important. Leaving aside the politics of whether or not to base a decision to give an industry import protection on such easily shiftable grounds, it is obvious that any serious assessment of the issue must be broadly based, and not heavily dependent on specific war scenarios that individually have a low probability and that many people believe to be wholly unrealistic. The main point is that key actors in several agencies are talking past each other and are ignoring the fundamental problem--lack of a serious, integrated look at the issue.
- o My own suspicion is that there would be a serious problem of machine tool capacity if we got into a big war, whatever the length of the war might turn out to be, because we would be trying to raise our military production as rapidly as possible at a very early stage of the war, or even in a pre-war mobilization period. There are many war scenarios that could create such a situation. What needs to be studied is the demand for specialized machine tools, production capacity in the industry, the possibilities for shifting machine tools from civilian to military purposes, and the time periods required to increase capacity or make other adjustments. Little of this work has been done.

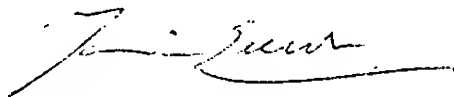
7. The analytic problem is not as bad for estimates of demand for strategic minerals because it is much more easily substitutable among uses, and less front-loaded in a mobilization period. Nevertheless, these estimates too are extremely scenario-dependent and the war scenarios are of dubious usefulness at best. What is needed at a minimum is an attempt to identify thresholds of military requirements within the entire range of wartime possibilities. This has not been done, nor to my knowledge, is there any plan to do so. I have been representing you on the interagency committee dealing with the strategic minerals problem and have provided an Intelligence Community

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contribution to the study on the security of foreign supplies of such minerals. But as I have indicated to you before, I have always had fundamental problems with the basic assumptions and methodology of the study.

8. CIA's main contribution on this general issue is to assess the past and likely future development of key foreign industries, especially high technology industries. As you know, this effort, by [redacted] OGI, has been well received, especially by Commerce. Unfortunately, it is difficult to link this work to analysis of US mobilization problems or weapons R&D possibilities. OGI is reworking [redacted] earlier draft of a paper you requested on global industrial trends and their implications for US national security. This paper will touch on some of these issues. However, the effectiveness of the CIA effort would be greatly enhanced if it could link in to systematic studies of both US industrial trends and mobilization requirements.

9. US policy activity on these issues will be on hold until after the November election. Even the stockpile study, which earlier in the year was put on a fast track, has been shifted to a slow track, if not a siding. Beyond November, I believe that a serious effort should be launched to study wartime mobilization issues in a systematic, integrated and well-focused way. This will take both money and competent central leadership with clout. Until this is done, I fear we will be unable to give reliable answers to the questions you and others have raised about how serious our growing import dependence may become.



Maurice C. Ernst

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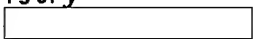

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DCI/NIC/NIO/Econ:M.Ernst:bha(30Aug84)



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Executive Secretary

26 July 84

Date

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Executive Registry

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26 July 1984

MEMORANDUM FOR: National Intelligence Officer for Economics  
FROM: Director of Central Intelligence  
SUBJECT: Industrial Mobilization Capability

1. Lionel Olmer expressed to me the other day his great concern about the steady impairment of our industrial mobilization capability and his frustration that nobody in town seems to be addressing it. He mentioned Dick Levine, working under Roger Robinson at the NSC staff, who has some responsibility in that area, but I don't remember in what connection he was mentioned. He did say that [redacted] on his staff, is the most knowledgeable person about the sad state of our industrial base in mobilization terms.

2. This is something I want to look at in foreign intelligence terms. What capabilities are being shifted offshore? What are the motivations? What are the implications? Pursuant to my conversation with Lionel Olmer, DuBois has called over to say he is ready to provide a briefing. I would like you to get in touch with him (telephone: 377-0709), receive the briefing and then tell me what role we can play in providing information that the policymakers would need to address the problem.

  
William J. Casey